Frontier Airlines Holdings, Inc.
Form 10-Q
July 27, 2007

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2007

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 000-51890

FRONTIER AIRLINES HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	20-4191157
(State or other jurisdiction of incorporated or organization)	(I.R.S. Employer Identification No.)
7001 Tower Road, Denver, CO	80249
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number, including area code: (720) 374-4200

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes _X_ No ___

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer or large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer ___ Accelerated filer _X_ Non-accelerated filer ___

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ___ No _X_

The number of shares of the Company's Common Stock outstanding as of July 26, 2007 was 36,641,744.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

FRONTIER AIRLINES HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets (Unaudited)
(In thousands, except share data)

		June 30, 2007		March 31, 2007
Assets				
Current assets:				
Cash and cash equivalents	$	215,431	$	202,981
Restricted investments		58,635		42,844
Receivables, net of allowance for doubtful accounts of $668 and $632 at June 30, 2007 and March 31, 2007, respectively		59,784		50,691
Prepaid expenses and other assets		27,894		26,163
Inventories, net of allowance of $334 and $329 at June 30, 2007 and March 31, 2007, respectively		12,287		15,685
Assets held for sale		1,834		2,041
Total current assets		375,865		340,405
Property and equipment, net (note 4)		695,490		605,131
Security and other deposits		20,258		20,850
Aircraft pre-delivery payments		40,473		52,453
Restricted investments		2,845		2,845
Deferred loan fees and other assets		17,623		21,184
Total Assets	$	1,152,554	$	1,042,868
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable	$	63,301	$	52,001
Air traffic liability		214,614		183,754
Other accrued expenses (note 6)		84,140		80,324
Current portion of long-term debt (note 7)		30,409		26,847
Deferred revenue and other current liabilities (note 5)		16,296		16,400
Total current liabilities		408,760		359,326
Long-term debt related to aircraft notes (note 7)		418,852		359,908
Convertible notes		92,000		92,000
Deferred revenue and other liabilities (note 5)		25,723		22,138
Total Liabilities	$	945,335	$	833,372
Stockholders' equity:				
Preferred stock, no par value, authorized 1,000,000 shares; none issued		–		–
Common stock, no par value, stated value of $.001 per share, authorized 100,000,000 shares; 36,641,744 and 36,627,455 shares issued and outstanding at June 30, 2007 and March 31, 2007, respectively		37		37

Treasury stock, stated at cost	–	(1,838)
Additional paid-in capital	194,230	193,943
Unearned ESOP shares	(919)	–
Accumulated other comprehensive loss, net of tax (note 8)	(22)	(22)
Retained earnings	13,893	17,376
	207,219	209,496
	$ 1,152,554	$ 1,042,868

See accompanying notes to consolidated financial statements.

FRONTIER AIRLINES HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended June 30, 2007	June 30, 2006
Revenues:		
Passenger - mainline	$ 303,680	$ 268,365
Passenger- regional partners	28,822	27,329
Cargo	1,510	1,618
Other	10,758	7,496
Total revenues	344,770	304,808
Operating expenses:		
Flight operations	46,323	39,836
Aircraft fuel	104,713	90,415
Aircraft lease	28,330	25,882
Aircraft and traffic servicing	44,638	37,988
Maintenance	24,798	20,596
Promotion and sales	34,297	29,422
General and administrative	15,332	13,294
Operating expenses - regional partners	34,357	29,483
Aircraft lease and facility exit costs	–	(14)
Gains on sales of assets, net	(22)	(307)
Depreciation	10,401	7,532
Total operating expenses	343,167	294,127
Operating income	1,603	10,681
Nonoperating income (expense):		
Interest income	3,547	3,954
Interest expense	(8,467)	(6,832)
Other, net	(166)	45
Total nonoperating expense, net	(5,086)	(2,833)
Income (loss) before income tax expense	(3,483)	7,848
Income tax expense	–	3,891
Net income (loss)	$ (3,483)	$ 3,957
Earnings (loss) per share (note 10):		
Basic	$ (0.10)	$ 0.11
Diluted	$ (0.10)	$ 0.10

Weighted average shares of		
common stock outstanding:		
Basic	36,635	36,590
Diluted	36,635	46,047

See accompanying notes to consolidated financial statements.

FRONTIER AIRLINES HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Three Months Ended June 30, 2007	June 30, 2006
Cash flows from operating activities:		
Net income (loss)	(3,483)	3,957
Adjustments to reconcile net income (loss) to net cash and cash equivalents provided by operating activities:		
Compensation expense under long-term incentive plans and employee stock ownership plans	716	902
Depreciation and amortization	10,781	7,885
Provisions recorded on inventories and assets beyond economic repair	233	111
Gains on disposal of equipment and other, net	(22)	(307)
Mark to market derivative losses, net	3,743	185
Deferred tax expenses	–	3,765
Changes in operating assets and liabilities:		
Restricted investments	(15,791)	(17,089)
Receivables	(9,093)	(2,351)
Security and other deposits	(5)	(101)
Prepaid expenses and other assets	(1,731)	(652)
Inventories	3,392	301
Other assets	(115)	181
Accounts payable	11,300	(79)
Air traffic liability	30,860	23,149
Other accrued expenses	4,275	(1,481)
Deferred revenue and other liabilities	3,481	2,623
Net cash provided by operating activities	38,541	20,999
Cash flows from investing activities:		
Aircraft lease and purchase deposits made	(10,518)	(11,326)
Aircraft lease and purchase deposits applied to aircraft	23,095	8,862
Proceeds from the sale of property and equipment and assets held for sale	249	36,493
Capital expenditures	(101,078)	(44,851)
Net cash used in investing activities	(88,252)	(10,822)
Cash flows from financing activities:		
Net proceeds from issuance of common stock and warrants	31	7

Payment to bank for compensating balances	–	(750)
Proceeds from long-term borrowings	69,665	–
Principal payments on long-term borrowings	(7,160)	(5,753)
Payment of financing fees	(375)	(55)
Net cash provided (used) by financing activities	62,161	(6,551)
Net increase in cash and cash equivalents	12,450	3,626
Cash and cash equivalents, beginning of period	202,981	272,840
Cash and cash equivalents, end of period	215,431	276,466

See accompanying notes to consolidated financial statements.

FRONTIER AIRLINES HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2007

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of Frontier Airlines Holdings, Inc., a Delaware corporation (“Frontier Holdings” or the “Company”), have been prepared in accordance with generally accepted accounting principles for interim financial reporting and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the Annual Report of the Company on Form 10-K for the year ended March 31, 2007. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included.

Certain prior period amounts have been reclassed to conform to the current year presentation. The marketing component of the sale of the Company’s *EarlyReturns* miles, previously reported as a reduction of promotion and sales expense in the amount of $2,745,000, has been reclassified as other revenue for the three month period ended June 30, 2006.

The consolidated financial statements include the accounts of Frontier Holdings, Frontier Airlines, Inc. (“Frontier”), and Lynx Aviation, Inc. (“Lynx Aviation”). At this time, Frontier and Lynx Aviation are the only two wholly owned subsidiaries of Frontier Holdings. The financial performance of Frontier Holdings is represented by the financial performance of Frontier and includes only start-up costs for Lynx Aviation because Lynx Aviation has not yet commenced operations. See Note 11 for operating segment information.

Financial results for the Company, and airlines in general, are seasonal in nature. More recently, results for Frontier’s first and second fiscal quarters have exceeded its third and fourth fiscal quarters. Results of operations for the three months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ended March 31, 2008.

Lynx Aviation

Lynx Aviation assumed a purchase agreement between Frontier Holdings and Bombardier, Inc. for ten Q400 turboprop aircraft, each with a seating capacity of 74, with the option to purchase ten additional aircraft. The aircraft will be purchased and operated by Lynx Aviation under a separate operating certificate. Lynx Aviation is currently in the start-up phase of operations. Lynx Aviation plans to commence revenue service in October 2007 with ten aircraft in service by the end of December 2008. Revenue service is subject to obtaining an operating certificate from the Federal Aviation Administration (“FAA”).

Frontier Jet Express

In January 2007, the Company entered into an agreement with Republic Airlines, Inc. (“Republic”), under which Republic will operate up to 17 76-seat Embraer 170 aircraft under the Frontier JetExpress brand. The contract is for an 11-year period from the in-service date of the last aircraft, which is scheduled for December 2008. The service began on March 4, 2007 and replaces the CRJ 700 aircraft operated by Horizon Air Industries, Inc. (“Horizon”). The Company will control the routing, scheduling and ticketing of this service. The Company compensates Republic for its services based on Republic’s operating expenses plus a margin on certain of its expenses. The agreement provides for financial incentives and penalties based on the performance of Republic which are accrued for in the period earned. In accordance with Emerging Issues Task Force No. 01-08, "*Determining Whether an Arrangement Contains a Lease*" ("EITF 01-08"), the Company has concluded that the Republic agreement contains a lease as the agreement conveys the right to use a specific number and specific type of aircraft over a stated period of time, and as such, has reported revenues and expenses related to Republic on a gross basis. Frontier establishes the scheduling, routes and pricing of the flights operated as "Frontier JetExpress" under the agreement. Revenues are pro-rated to the segment operated by the regional partner based on miles flown and are included in passenger revenues – regional partners. Expenses directly related to the flights flown by the regional partner are included in operating expenses – regional partners. The Company allocates indirect expenses between mainline and JetExpress operations by using regional partner departures, available seat miles, or passengers as a percentage of system combined departures, available seat miles or passengers.

In September 2003, the Company signed an agreement with Horizon under which Horizon operated up to nine 70-seat CRJ 700 aircraft under the Frontier JetExpress brand. In September 2006, the Company amended the agreement with Horizon to provide that all nine CRJ-700 aircraft would be returned to Horizon during a one-year ramp down period which began in January 2007 and will be completed in December 2007. The Company has recorded revenues and expenses related to Horizon gross, as opposed to net, upon inception of service in accordance with EITF 01-08.

2. New Accounting Standards

New Accounting Standards Not Yet Adopted

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value under U.S. generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company has not yet determined the impact of adopting FAS 157.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("FAS 159"). This standard permits companies to choose to measure many financial instruments and certain other items at fair value, following the provisions of FAS 157. FAS 159 is effective for fiscal years beginning after November 15, 2007. The Company has not yet determined the impact of adopting FAS 159.

New Accounting Standards Adopted During the Quarter

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109,* ("FIN 48"), on April 1, 2007. The Company did not have any unrecognized tax benefits and there was no effect on the Company's financial condition or results of operations as a result of implementing FIN 48.

The Company files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. This Company is no longer subject to U.S. federal tax examinations for tax years before 2003. State jurisdictions remain subject to examination for tax years 2002 - 2006. The Company believes there will not be any material changes in unrecognized tax positions over the next 12 months.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FIN 48, we did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor were any interest expense recognized during the quarter.

3. Equity Based Compensation Plans

For the three months ended June 30, 2007 and 2006, the Company recognized stock-based compensation expense of $256,000 and $154,000, respectively, for stock options, stock appreciation rights (“SARs”) and restricted stock units (“RSUs”). Unrecognized stock-based compensation expense related to unvested options and RSU awards outstanding as of June 30, 2007 was approximately $4,534,000, and will be recorded over the remaining vesting periods of one to five years. At June 30, 2007, the weighted average remaining recognition period for options and RSU awards was 3.7 years and 3.9 years awards, respectively.

During the three months ended June 30, 2007, the Company granted SARs of 275,470 at a weighted average exercise price of $6.03 per share with a grant-date fair value of $3.53. During the three months ended June 30, 2007, the Company also granted 156,959 RSUs at a weighted average grant date market value of $6.01.

The following table shows the Company’s assumptions used to compute the stock-based compensation expense for stock option and SAR grants issued during the three months ended June 30, 2007 and 2006:

	Three months ended June 30,	
	2007	**2006**
Assumptions:		
Risk-free interest rate	4.55%	4.85%
Dividend yield	0%	0%
Volatility	65.19%	70.82%
Expected life (years)	5	5

Exercise prices for options and SARs outstanding as of June 30, 2007 ranged from $2.13 per share to $24.17 per share. The weighted-average remaining contractual life of these equity awards is 5.2 years. The aggregate intrinsic value of vested options and SARs was $266,000 as of June 30, 2007. As of June 30, 2007, the Company had 1,387,000 shares available for future grants.

4. Property and Equipment, Net

As of June 30, 2007 and March 31, 2007, property and equipment consisted of the following:

	June 30, 2007	March 31, 2007
	(In thousands)	
Aircraft, spare aircraft parts, and improvements to leased aircraft	$ 761,219	$ 667,364
Ground property, equipment and leasehold improvements	46,149	42,301
Computer software	11,216	10,234
Construction in progress	6,853	5,191
	825,437	725,090
Less accumulated depreciation	(129,947)	(119,959)
Property and equipment, net	$ 695,490	$ 605,131

Property and equipment includes capitalized interest of $2,598,000 and $1,970,000 at June 30, 2007 and March 31, 2007, respectively.

During the three months ended June 30, 2007, the Company recorded additional depreciation expense of $1,359,000 related to a change in estimate of the useful life of their aircraft seats due the implementation of a program to replace the Airbus seats with new leather seats during the next two fiscal years.

5. Deferred Revenue and Other Liabilities

At June 30, 2007 and March 31, 2007, deferred revenue and other liabilities consisted of the following:

	June 30, 2007	March 31, 2007
	(In thousands)	
Deferred revenue primarily related to co-branded credit card	$ 22,991	$ 19,047
Deferred rent	18,345	18,861
Other	683	630
Total deferred revenue and other liabilities	42,019	38,538
Less current portion	(16,296)	(16,400)
	$ 25,723	$ 22,138

6. Other Accrued Expenses

At June 30, 2007 and March 31, 2007, other accrued expenses consisted of the following:

		June 30, 2007		March 31, 2007
		(In thousands)		
Accrued salaries and benefits	$	38,276	$	42,616
Federal excise and other passenger taxes payable		33,918		26,914
Property and income taxes payable		5,018		2,593
Other		6,928		8,201
	$	84,140	$	80,324

7. Long-Term Debt

During the three months ended June 30, 2007, the Company borrowed $69,665,000 for the purchase of three Airbus A318 aircraft. These senior loans have terms of 12 years and are payable monthly installments of $227,000, $227,000 and $238,000 as of June 30, 2007, including interest, payable in arrears, with a floating interest rate adjusted quarterly based on LIBOR. These loans each bear interest at rates of 7.36% at June 30, 2007. At the end of the term, there are balloon payments of $9,263,000, $9,291,000, and $9,312,000 for each of these loans. A security interest in the three purchased aircraft secures the loans.

Revolving Facilities and Letters of credit

In July 2005, the Company entered into an agreement with a financial institution for a $5,000,000 revolving line of credit that allows the Company to issue letters of credit up to $3,500,000. In June 2006, the revolving letter of credit was increased to $5,750,000 and it now permits the Company to issue letters of credit up to $5,000,000 and matures in June 2008. As of June 30, 2007, the Company has utilized the entire amount available for letters of credit under this agreement for standby letters of credit which provide credit support for certain facility leases. A cash compensating balance of $2,750,000 was required to be maintained and to secure the letters of credit, which have been classified as restricted investments on the consolidated balance sheets.

In March 2005, the Company entered into a two-year revolving credit facility ("Credit Facility") to be used in support of letters of credit and for general corporate purposes, which was renewed for another two-year period ending May 2009. Under this facility, the Company may borrow the lesser of $20,000,000 ("maximum commitment amount") or 60% of the current market value of pledged eligible spare parts. The amount available for letters of credit is equal to the maximum commitment amount under the facility less current borrowings. Interest under the Credit Facility is based on the Eurodollar rate plus a margin or prime plus a margin. In addition, there is a quarterly commitment fee of 0.50% per annum of the unused portion of the facility based on the maximum commitment amount. The Credit Facility contains a covenant that will not permit the Company to maintain an unrestricted cash and cash equivalent position of less than $120,000,000, with a 30-day cure period. The amount available for borrowings under the Credit Facility based on the current market value of the pledged eligible spare parts at June 30, 2007 was $18,563,000. The Company has reduced the amount available for borrowings by letters of credit issued of $11,300,000.

At June 30, 2007, the Company was in compliance with the covenants for all debt and lease agreements.

8. Equity

Treasury Stock and Unearned ESOP shares

In March 2007, the Company purchased 300,000 shares of its common stock for $1,838,000. These shares were purchased to fund the Company's 2007 contribution to the Employee Stock Ownership Plan ("ESOP"). These shares were contributed to the ESOP in April 2007. Compensation expense for our ESOP for three months ended June 30, 2007 was $459,000.

Comprehensive Income (Loss)

A summary of the comprehensive income (loss) at June 30, 2007 and 2006 is as follows:

		June 30, 2007		June 30, 2006
		(In thousands)		
Net income (loss)	$	(3,483)	$	3,957
Other comprehensive income:				
Unrealized gain (loss) on derivative instrument, net of tax		–		10
Total comprehensive income (loss)	$	(3,483)	$	3,967

9. Retirement Health Plan

Pursuant to the Company's collective bargaining agreement with its pilots, retired pilots and their dependents may retain medical benefits under the terms and conditions of the Health and Welfare Plan for Employees of Frontier Airlines, Inc. until age 65. The costs of retiree medical benefits are continued under the same contribution schedule as active employees.

Net periodic benefit cost for the three months ended June 30, 2007 and 2006 include the following components:

		June 30, 2007		June 30, 2006
		(In thousands)		
Service cost	$	260	$	248
Interest cost		87		79
Net actuarial loss (gain)		–		3
Net periodic benefit cost	$	347	$	330

- 9 -

10. Earnings (Loss) Per Share

The following table sets forth the computation of basic and diluted earnings (loss) per share:

		Three months ended June 30, 2007		Three months ended June 30, 2006
		(In thousands)		
Numerator:				
Net income (loss) as reported	$	(3,483)	$	3,957
Interest on convertible notes, net of capitalized interest		–		498
Numerator for diluted earnings (loss) per share	$	(3,483)	$	4,455
Denominator:				
Weighted average shares outstanding, basic		36,635		36,590
Effects of diluted securities:				
Conversion of convertible notes		–		8,900
Employee stock awards		–		128
Warrants		–		429
Adjusted weighted average shares outstanding, diluted		36,635		46,047
Earnings (loss) per share, basic	$	(0.10)	$	0.11
Earnings (loss) per share, diluted	$	(0.10)	$	0.10

For the three months ended June 30, 2007, interest on convertible notes of $665,000 and 8,900,000 shares were excluded from the calculation of diluted earnings per share because they were anti-dilutive. For the three months ended June 30, 2007, the common stock equivalents of the weighted average options, SARS, RSUs and warrants outstanding of 254,000 were excluded from the calculation of diluted earnings per share because they were anti-dilutive. For the three months ended June 30, 2007, the weighted average options, SARS and RSUs outstanding of 2,132,000 were excluded from the calculation of diluted earnings per share because the exercise prices were greater than the average market price of the common stock. For the three months ending June 30, 2006, the weighted average options, SARS, RSUs and warrants outstanding of 2,278,000 were excluded from the calculation of diluted earnings per share because the exercise price of the options, SARs, RSUs and warrants were greater than the average market price of the common stock.

11. Operating Segment Information

The Company has three primary operating and reporting segments, consisting of mainline operations, Frontier JetExpress, and Lynx Aviation. Mainline operations include service operated by Frontier using Airbus aircraft. Frontier JetExpress includes regional jet service operated by Horizon and Republic. Lynx Aviation, a subsidiary of Frontier Holdings, is currently in the start-up phase of operations and will operate using Bombardier Q400 aircraft.

Financial information for the three months ended June 30, 2007 and 2006 for the Company's operating segments is as follows:

	June 30, 2007	June 30, 2006
	(In thousands)	
Operating revenues:		
Mainline	$ 315,948	$ 277,479
Frontier JetExpress	28,822	27,329
Consolidated	$ 344,770	$ 304,808
Operating income (loss):		
Mainline	$ 9,366	$ 12,835
Frontier JetExpress	(5,535)	(2,154)
Lynx Aviation	(2,228)	–
Consolidated	$ 1,603	$ 10,681
Total assets at end of period:		
Mainline	$ 1,122,112	$ 997,703
Frontier JetExpress	537	744
Lynx Aviation	29,905	–